

LENOX COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Lenox Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2007 election)**

Beverly Kinker	President	2008
Brent Wise	Vice President	2009
Chris Christensen	Board Member	2007
Paul Maynes	Board Member	2007
Todd Barker	Board Member	2008

**Board of Education
(After September 2007 election)**

Beverly Kinker	President	2008
Brent Wise	Vice President (Resigned)	2009
Nicole Hogan	Board Member	2010
Cynda Notz	Board Member	2010
Todd Barker	Board Member	2008
Chris Christensen	Board Member (Appointed)	2008

School Officials

David Henrichs	Superintendent	2008
Paula Horton	District Secretary/ Treasurer	2008
Richard Wilson	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Lenox Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lenox Community School District, Lenox, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lenox Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

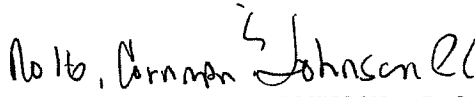
In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2009 on our consideration of the Lenox Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

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inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lenox Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lenox Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,404,195 in fiscal 2007 to \$3,587,776 in fiscal 2008, while General Fund expenditures increased from \$3,259,318 in fiscal 2007 to \$3,579,902 in fiscal 2008. This resulted in an increase in the District's General Fund balance from \$490,601 in fiscal 2007 to \$498,475 in fiscal 2008, a 1.60% increase over the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state grant revenue in fiscal 2008. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lenox Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Lenox Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lenox Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Lenox Community School District Annual Financial Report

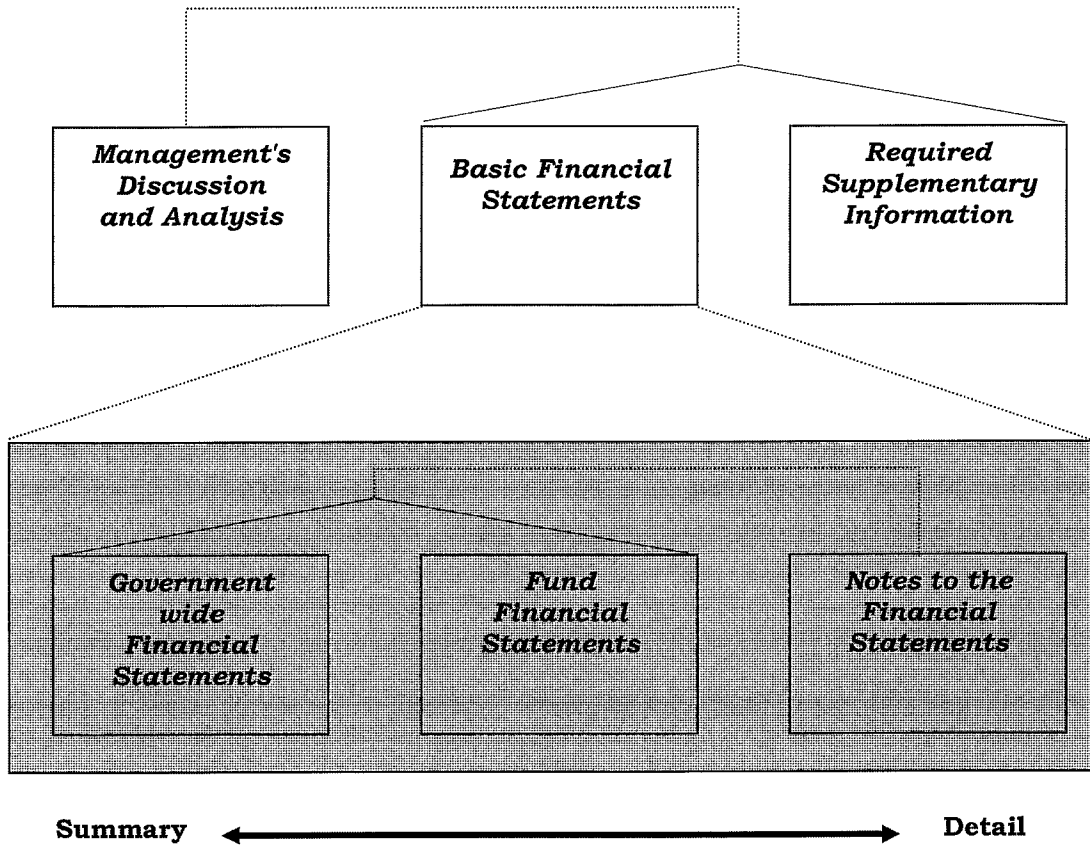


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Agency fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 3,106,559	2,808,667	17,602	28,294	3,124,161	2,836,961	10.12%
Capital assets	4,676,431	4,803,019	25,660	17,913	4,702,091	4,820,932	-2.47%
Total assets	7,782,990	7,611,686	43,262	46,207	7,826,252	7,657,893	2.20%
Long-term obligations	3,672,906	3,897,693	0	0	3,672,906	3,897,693	-5.77%
Other liabilities	1,854,825	1,736,389	8,556	8,270	1,863,381	1,744,659	6.80%
Total liabilities	5,527,731	5,634,082	8,556	8,270	5,536,287	5,642,352	-1.88%
Net assets:							
Invested in capital assets, net of related debt	1,031,431	933,019	25,660	17,913	1,057,091	950,932	11.16%
Restricted	658,627	464,853	0	0	658,627	464,853	41.69%
Unrestricted	565,201	579,732	9,046	20,024	574,247	599,756	-4.25%
Total net assets	\$ 2,255,259	1,977,604	34,706	37,937	2,289,965	2,015,541	13.62%

The District's combined net assets increased by 13.62%, or \$274,424, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$193,774, or 41.69% over the prior year.

Unrestricted net assets - are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$25,509, or 4.25%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 372,488	355,660	78,748	69,385	451,236	425,045	6.16%
Operating grants and contributions and restricted interest	619,391	592,754	101,189	92,960	720,580	685,714	5.08%
General revenues:							
Local tax	1,592,855	1,547,952	0	0	1,592,855	1,547,952	2.90%
Local option sales and services tax	119,222	128,162	0	0	119,222	128,162	-6.98%
Unrestricted state grants	1,506,225	1,404,371	0	0	1,506,225	1,404,371	7.25%
Other	100,987	61,068	155	155	101,142	61,223	65.20%
Total revenues	4,311,168	4,089,967	180,092	162,500	4,491,260	4,252,467	5.62%
Program expenses:							
Governmental activities:							
Instructional	2,574,022	2,458,963	0	0	2,574,022	2,458,963	4.68%
Support services	1,045,382	863,592	10,407	10,278	1,055,789	873,870	20.82%
Non-instructional programs	0	0	172,916	146,847	172,916	146,847	17.75%
Other expenses	414,109	513,875	0	0	414,109	513,875	-19.41%
Total expenses	4,033,513	3,836,430	183,323	157,125	4,216,836	3,993,555	5.59%
Changes in net assets	277,655	253,537	(3,231)	5,375	274,424	258,912	5.99%
Beginning net assets	1,977,604	1,724,067	37,937	32,562	2,015,541	1,756,629	14.74%
Ending net assets	\$ 2,255,259	1,977,604	34,706	37,937	2,289,965	2,015,541	13.62%

In fiscal 2008, local tax, local option sales and services tax and unrestricted state grants account for 74.65% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.91% of the revenue from business-type activities.

The District's total revenues were \$4,491,260 of which \$4,311,168 was for governmental activities and \$180,092 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 5.62% increase in revenues and a 5.59% increase in expenses. Increases in local tax and state revenues helped to fund increases in expenditures. The increases in expenses were related to increases in negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$4,311,168 and expenses were \$4,033,513.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 2,574,022	2,458,963	4.68%	1,699,550	1,625,164	4.58%
Support services	1,045,382	863,592	21.05%	1,043,783	861,346	21.18%
Other expenses	414,109	513,875	-19.41%	298,301	401,506	-25.70%
Totals	<u>\$ 4,033,513</u>	<u>3,836,430</u>	<u>5.14%</u>	<u>3,041,634</u>	<u>2,888,016</u>	<u>5.32%</u>

- The cost financed by users of the District's programs was \$372,488.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$619,391.
- The net cost of governmental activities was financed with \$1,592,855 in property tax, \$119,222 in local option sales and services tax, \$1,506,225 in unrestricted state grants, \$35,617 in interest income and \$65,370 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$180,092 and expenses were \$183,323. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Lenox Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,077,776, above last year's ending fund balances of \$924,506. However, the primary reason for the increase in combined fund balances in fiscal 2008 is due to the increase in the other nonmajor governmental balance.

Governmental Fund Highlights

The District's improving General Fund financial position from \$490,601 to \$498,475 is the product of many factors:

- Increases in state grants during the year resulted in an increase in revenues.
- The increase in negotiated salary and benefits, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$186,065 in fiscal 2007 to \$187,362 in fiscal 2008. This increase was due to the District revenues exceeding expenses in during fiscal 2008.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$37,937 at June 30, 2007 to \$34,706 at June 30, 2008, representing a decrease of 8.52%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$109,708 more than budgeted revenues, a variance of 2.52%. The most significant variance resulted from the District receiving more in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$4,702,091, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$138,337.

The original cost of the District's capital assets was \$6,122,138. Governmental funds account for \$6,059,050 with the remainder of \$63,088 in the Proprietary, School Nutrition Fund.

The largest percentage of change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment which totaled \$104,258 at June 30, 2008, compared to \$118,111 reported at June 30, 2007. This decrease is the result of the disposal of assets and depreciation.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 50,521	50,521	0	0	50,521	50,521	0.00%
Buildings	4,547,312	4,652,300	0	0	4,547,312	4,652,300	-2.26%
Machinery and equipment	78,598	100,198	25,660	17,913	104,258	118,111	-11.73%
Total	\$ 4,676,431	4,803,019	25,660	17,913	4,702,091	4,820,932	-2.47%

Long-Term Debt

At June 30, 2008, the District had \$3,672,906 in general obligation and other long-term debt outstanding. This represents a decrease of 5.77% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$3,235,000 at June 30, 2008.

The District had total outstanding Capital Loan Notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$410,000 at June 30, 2008.

The District had compensated absences payable from the General Fund of \$27,906 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General Obligation Bonds	\$ 3,235,000	3,390,000	-4.57%
Capital Loan Notes	410,000	480,000	-14.58%
Compensated absences	27,906	27,693	0.77%
Totals	\$ 3,672,906	3,897,693	-5.77%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- On July 1, 2007 IPERS implemented an employers' contribution increase over a 4-year period. The employers' portion of IPERS increased from 5.75% to 6.05% on July 1, 2007, and will increase to 6.35% on July 1, 2008, to 6.65% on July 1, 2009 and finally to 6.95% on July 1, 2010. This will increase the Lenox Community Schools' employer benefit costs significantly over the next few years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paula Horton, District Secretary, Lenox Community School District, 600 South Locust, Lenox, Iowa, 50851.

BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 1,157,939	8,266	1,166,205
Receivables:			
Property tax:			
Delinquent	22,684	0	22,684
Succeeding year	1,452,989	0	1,452,989
Income surtax	184,714	0	184,714
Interfund	1,313	(1,313)	0
Accounts	4,757	28	4,785
Due from other governments	282,163	175	282,338
Inventories	0	10,446	10,446
Capital assets, net of accumulated depreciation (Note 5)	4,676,431	25,660	4,702,091
Total Assets	7,782,990	43,262	7,826,252
Liabilities			
Accounts payable	78,811	8,375	87,186
Salaries and benefits payable	311,930	0	311,930
Due to other governments	339	0	339
Interest payable	10,756	0	10,756
Deferred revenue:			
Succeeding year property tax	1,452,989	0	1,452,989
Unearned revenue	0	181	181
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	160,000	0	160,000
Capital loan notes payable	75,000	0	75,000
Compensated absences payable	27,906	0	27,906
Portion due after one year:			
General obligation bonds payable	3,075,000	0	3,075,000
Capital loan notes payable	335,000	0	335,000
Total Liabilities	5,527,731	8,556	5,536,287
Net Assets			
Invested in capital assets, net of related debt	1,031,431	25,660	1,057,091
Restricted for:			
Talented and gifted	3,207	0	3,207
Beginning teacher mentoring	1,476	0	1,476
Statewide voluntary preschool program	8,994	0	8,994
Additional teacher contract day	517	0	517
Market factor	1,273	0	1,273
Professional development	6,689	0	6,689
Market factor incentives	2,842	0	2,842
Management levy	121,162	0	121,162
Physical plant and equipment levy	241,690	0	241,690
Capital projects	129,524	0	129,524
Debt service	93,114	0	93,114
Other special revenue purposes	48,139	0	48,139
Unrestricted	565,201	9,046	574,247
Total Net Assets	\$ 2,255,259	34,706	2,289,965

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Charges for Expenses	Operating Grants, Contributions and Restricted Services Interest		Govern- mental Activities	Business- Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,426,266	188,355	479,736	(758,175)	0	(758,175)
Special instruction	540,657	100,498	20,221	(419,938)	0	(419,938)
Other instruction	607,099	82,412	3,250	(521,437)	0	(521,437)
	<u>2,574,022</u>	<u>371,265</u>	<u>503,207</u>	<u>(1,699,550)</u>	<u>0</u>	<u>(1,699,550)</u>
Support services:						
Student services	74,729	0	0	(74,729)	0	(74,729)
Instructional staff services	126,698	0	0	(126,698)	0	(126,698)
Administration services	395,002	0	0	(395,002)	0	(395,002)
Operation and maintenance of plant services	309,951	0	0	(309,951)	0	(309,951)
Transportation services	139,002	1,223	376	(137,403)	0	(137,403)
	<u>1,045,382</u>	<u>1,223</u>	<u>376</u>	<u>(1,043,783)</u>	<u>0</u>	<u>(1,043,783)</u>
Other expenditures:						
Facilities acquisitions	54,388	0	0	(54,388)	0	(54,388)
Long-term debt interest	138,925	0	0	(138,925)	0	(138,925)
AEA flowthrough	115,808	0	115,808	0	0	0
Depreciation(unallocated)*	104,988	0	0	(104,988)	0	(104,988)
	<u>414,109</u>	<u>0</u>	<u>115,808</u>	<u>(298,301)</u>	<u>0</u>	<u>(298,301)</u>
Total governmental activities	<u>4,033,513</u>	<u>372,488</u>	<u>619,391</u>	<u>(3,041,634)</u>	<u>0</u>	<u>(3,041,634)</u>
Business-Type activities:						
Support services:						
Administration services	10,407	0	0	0	(10,407)	(10,407)
Non-instructional programs:						
Nutrition services	172,916	78,748	101,189	0	7,021	7,021
Total business-type activities	<u>183,323</u>	<u>78,748</u>	<u>101,189</u>	<u>0</u>	<u>(3,386)</u>	<u>(3,386)</u>
Total	<u>\$ 4,216,836</u>	<u>451,236</u>	<u>720,580</u>	<u>(3,041,634)</u>	<u>(3,386)</u>	<u>(3,045,020)</u>
General Revenues:						
Local tax levied for:						
General purposes			\$ 1,113,096	0	1,113,096	
Capital outlay			81,124	0	81,124	
Debt service			184,493	0	184,493	
Income surtax			214,142	0	214,142	
Local option sales and services tax			119,222	0	119,222	
Unrestricted state grants			1,506,225	0	1,506,225	
Unrestricted investment earnings			35,617	155	35,772	
Other general revenues			65,370	0	65,370	
Total general revenues			<u>3,319,289</u>	<u>155</u>	<u>3,319,444</u>	
Changes in net assets			277,655	(3,231)	274,424	
Net assets beginning of year			<u>1,977,604</u>	<u>37,937</u>	<u>2,015,541</u>	
Net assets end of year			<u>\$ 2,255,259</u>	<u>34,706</u>	<u>2,289,965</u>	

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 678,314	185,944	293,681	1,157,939
Receivables:				
Property tax:				
Delinquent	18,059	0	4,625	22,684
Succeeding year	1,160,438	77,688	214,863	1,452,989
Income surtax	130,386	54,328	0	184,714
Interfund	1,313	0	0	1,313
Accounts	3,237	1,418	102	4,757
Due from other governments	186,223	0	95,940	282,163
Total Assets	\$ 2,177,970	319,378	609,211	3,106,559
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 76,402	0	2,409	78,811
Salaries and benefits payable	311,930	0	0	311,930
Due from other governments	339	0	0	339
Deferred revenue:				
Succeeding year property tax	1,160,438	77,688	214,863	1,452,989
Income surtax	130,386	54,328	0	184,714
Total liabilities	1,679,495	132,016	217,272	2,028,783
Fund balances:				
Reserved for:				
Debt service	0	0	93,114	93,114
Talented and gifted	3,207	0	0	3,207
Beginning teacher mentoring	1,476	0	0	1,476
Statewide voluntary preschool program	8,994	0	0	8,994
Additional teacher contract day	517	0	0	517
Market factor	1,273	0	0	1,273
Professional development	6,689	0	0	6,689
Market factor incentives	2,842	0	0	2,842
Unreserved	473,477	187,362	298,825	959,664
Total fund balances	498,475	187,362	391,939	1,077,776
Total Liabilities and Fund Balances	\$ 2,177,970	319,378	609,211	3,106,559

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances of governmental funds(page 15)	\$ 1,077,776
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,676,431
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	184,714
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(10,756)
Long-term liabilities, including general obligation bonds payable, capital loan notes payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,672,906)</u>
Net assets of governmental activities(page 13)	<u>\$ 2,255,259</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,167,030	135,870	383,814	1,686,714
Tuition	280,851	0	0	280,851
Other	89,454	6,442	99,978	195,874
State sources	1,859,200	51	76,746	1,935,997
Federal sources	186,369	0	0	186,369
TOTAL REVENUES	3,582,904	142,363	560,538	4,285,805
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,397,765	0	19,154	1,416,919
Special instruction	540,657	0	0	540,657
Other instruction	522,527	0	84,572	607,099
	2,460,949	0	103,726	2,564,675
Support services:				
Student services	74,729	0	0	74,729
Instructional staff services	122,746	0	0	122,746
Administration services	393,260	0	4,042	397,302
Operation and maintenance of plant services	291,047	0	18,904	309,951
Transportation services	121,363	0	11,697	133,060
	1,003,145	0	34,643	1,037,788
Other expenditures:				
Facilities acquisitions	0	54,388	0	54,388
Long-term debt:				
Principal	0	0	225,000	225,000
Interest and fiscal charges	0	0	139,748	139,748
AEA flowthrough	115,808	0	0	115,808
	115,808	54,388	364,748	534,944
TOTAL EXPENDITURES	3,579,902	54,388	503,117	4,137,407
EXCESS OF REVENUES OVER EXPENDITURES	3,002	87,975	57,421	148,398
OTHER FINANCING SOURCES (USES):				
Transfer in	0	0	266,788	266,788
Transfer out	0	(86,678)	(180,110)	(266,788)
Sale of equipment	4,872	0	0	4,872
TOTAL OTHER FINANCING SOURCES (USES)	4,872	(86,678)	86,678	4,872
NET CHANGE IN FUND BALANCES	7,874	1,297	144,099	153,270
FUND BALANCE BEGINNING OF YEAR	490,601	186,065	247,840	924,506
FUND BALANCE END OF YEAR	\$ 498,475	187,362	391,939	1,077,776

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 153,270

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year are as follows:

Capital outlay expenditures	\$ 7,460	
Depreciation expense	<u>(134,048)</u>	(126,588)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 25,363

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 225,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(213)
----------------------	-------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Changes in net assets of governmental activities (page 14) \$ 277,655

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 8,266
Accounts receivable	28
Due from other governments	175
Inventories	10,446
Capital assets, net of accumulated depreciation (Note 5)	<u>25,660</u>
Total Assets	<u>44,575</u>
Liabilities	
Interfund payable	1,313
Accounts payable	8,375
Unearned revenue	<u>181</u>
Total Liabilities	<u>9,869</u>
Net Assets	
Invested in capital assets	25,660
Unrestricted	<u>9,046</u>
Total Net Assets	<u><u>\$ 34,706</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 78,201
Other miscellaneous revenue	547
TOTAL OPERATING REVENUES	<u>78,748</u>
OPERATING EXPENSES:	
Support services:	
Administration services:	
Salaries	<u>10,407</u>
Non-instructional programs:	
Food service operations:	
Salaries	59,501
Benefits	11,107
Services	976
Supplies	97,043
Depreciation	4,289
	<u>172,916</u>
TOTAL OPERATING EXPENSES	<u>183,323</u>
OPERATING LOSS	<u>(104,575)</u>
NON-OPERATING REVENUES:	
State sources	2,415
Federal sources	98,774
Interest income	155
TOTAL NON-OPERATING REVENUES	<u>101,344</u>
Change in net assets	(3,231)
Net assets beginning of year	<u>37,937</u>
Net assets end of year	<u>\$ 34,706</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 78,084
Cash received from miscellaneous sources	547
Cash payments to employees for services	(81,015)
Cash payments to suppliers for goods or services	(88,305)
Net cash used in operating activities	<u>(90,689)</u>
Cash flows from non-capital financing activities:	
State grants received	2,415
Federal grants received	86,336
Net cash provided by non-capital financing activities	<u>88,751</u>
Cash flows from investing financing activities:	
Interest on investments	<u>155</u>
Cash flows from capital financing activities	
Purchase of assets	<u>(12,036)</u>
Net decrease in cash and cash equivalents	(13,819)
Cash and cash equivalents at beginning of year	<u>22,085</u>
Cash and cash equivalents at end of year	<u>\$ 8,266</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (104,575)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	12,263
Depreciation	4,289
Increase in inventories	(3,055)
Decrease in accounts receivable	103
Increase in accounts payable	506
Decrease in unearned revenue	(220)
Net cash used in operating activities	<u>\$ (90,689)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 8,266</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received federal commodities valued at \$12,263.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2008

	<u>Agency</u>
Assets	
Cash and pooled investments	<u>\$ 1,854</u>
Liabilities	
Due to other groups	<u>\$ 1,854</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

(1) Summary of Significant Accounting Policies

The Lenox Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Lenox, Iowa, and the predominate agricultural territory in Adams, Ringgold, Taylor and Union Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lenox Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Lenox Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Ringgold, Taylor and Union Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for major equipment purchases and capital improvements.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for the current school year, which is paid in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 854,879

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Interfund Receivables/Payables

The detail of interfund receivables and payables at June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nutrition Fund	\$ 1,313

The Nutrition Fund is owes the General Fund for expense due to the shortfall in cash flow in Nutrition Fund.

(4) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue, Physical Plant and Equipment Levy	\$ 180,110
Debt Service	Capital Projects	86,678
Total		\$ 266,788

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The Special Revenue, Physical Plant and Equipment Levy Fund transferred funds to the Debt Service Fund for payment of Capital Loan Note indebtedness.

The Capital Projects Fund transferred funds to the Debt Service Fund for payment on General Obligation Bond indebtedness.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 51,052	12,036	0	63,088
Less accumulated depreciation	33,139	4,289	0	37,428
Business-type activities capital assets, net	<u>\$ 17,913</u>	<u>7,747</u>	<u>0</u>	<u>25,660</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 50,521	0	0	50,521
Total capital assets not being depreciated	<u>50,521</u>	<u>0</u>	<u>0</u>	<u>50,521</u>
Capital assets being depreciated:				
Buildings	5,343,966	0	0	5,343,966
Machinery and equipment	690,103	7,460	33,000	664,563
Total capital assets being depreciated	<u>6,034,069</u>	<u>7,460</u>	<u>33,000</u>	<u>6,008,529</u>
Less accumulated depreciation for:				
Buildings	691,666	104,988	0	796,654
Machinery and equipment	589,905	29,060	33,000	585,965
Total accumulated depreciation	<u>1,281,571</u>	<u>134,048</u>	<u>33,000</u>	<u>1,382,619</u>
Total capital assets being depreciated, net	<u>4,752,498</u>	<u>(126,588)</u>	<u>0</u>	<u>4,625,910</u>
Governmental activities capital assets, net	<u>\$ 4,803,019</u>	<u>(126,588)</u>	<u>0</u>	<u>4,676,431</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 14,294
Support services:	
Instructional support	3,952
Transportation	10,814
Unallocated depreciation	<u>104,988</u>
Total governmental activities depreciation expense	<u>\$ 134,048</u>
Business-type activities:	
Food services	<u>\$ 4,289</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 3,390,000	0	155,000	3,235,000	160,000
Capital Loan Notes	480,000	0	70,000	410,000	75,000
Compensated Absences	27,693	27,906	27,693	27,906	27,906
Total	\$ 3,897,693	27,906	252,693	3,672,906	262,906

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2003			
	Interest Rates	Principal	Interest	Total
2009	4.00 %	\$ 160,000	136,295	296,295
2010	4.00	170,000	129,895	299,895
2011	4.00	175,000	123,095	298,095
2012	3.75	180,000	116,095	296,095
2013	3.80	190,000	109,345	299,345
2014-2018	3.90-4.30	1,055,000	429,745	1,484,745
2019-2023	4.40-4.60	1,305,000	182,600	1,487,600
Total		\$ 3,235,000	1,227,070	4,462,070

Capital Loan Notes Payable

Details of the District's June 30, 2008 capital loan notes indebtedness are as follows:

Year Ending June 30,	Note Issue of June 30, 2005			
	Interest Rates	Principal	Interest	Total
2009	3.20 %	\$ 75,000	14,143	89,143
2010	3.35	80,000	11,742	91,742
2011	3.45	80,000	9,062	89,062
2012	3.55	85,000	6,302	91,302
2013	3.65	90,000	3,285	93,285
Total		\$ 410,000	44,534	454,534

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$140,749, 124,988, and \$120,949, respectively, equal to the required contributions for each year.

(8) Risk Management

Lenox Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$115,808 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LENOX COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,163,439	78,903	2,242,342	2,192,236	2,192,236	50,106
State sources	1,935,997	2,415	1,938,412	1,850,953	1,850,953	87,459
Federal sources	186,369	98,774	285,143	313,000	313,000	(27,857)
Total revenues	4,285,805	180,092	4,465,897	4,356,189	4,356,189	109,708
Expenditures:						
Instruction	2,564,675	0	2,564,675	3,340,000	3,340,000	775,325
Support services	1,037,788	10,407	1,048,195	1,237,000	1,237,000	188,805
Non-instructional programs	0	172,916	172,916	200,000	200,000	27,084
Other expenditures	534,944	0	534,944	513,464	600,000	65,056
Total expenditures	4,137,407	183,323	4,320,730	5,290,464	5,377,000	1,056,270
Excess(deficiency) of revenues over(under) expenditures	148,398	(3,231)	145,167	(934,275)	(1,020,811)	1,165,978
Other financing sources, net	4,872	0	4,872	5,000	5,000	(128)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	153,270	(3,231)	150,039	(929,275)	(1,015,811)	1,165,850
Balance beginning of year	924,506	37,937	962,443	939,396	939,396	23,047
Balance end of year	\$ 1,077,776	34,706	1,112,482	10,121	(76,415)	1,188,897

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$86,536.

OTHER SUPPLEMENTARY INFORMATION

LENOX COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds					Total
			Total			
	Manage-	Student	Special	Capital	Debt	Other
	ment	Activity	Revenue	Projects	Service	Nonmajor
	Levy		Funds			Governmental
						Funds
Assets						
Cash and pooled investments	\$ 119,762	50,446	170,208	33,584	89,889	293,681
Receivables:						
Property tax:						
Current year delinquent	1,400	0	1,400	0	3,225	4,625
Succeeding year	80,000	0	80,000	0	134,863	214,863
Accounts	0	102	102	0	0	102
Due from other governments	0	0	0	95,940	0	95,940
Total Assets	\$ 201,162	50,548	251,710	129,524	227,977	609,211
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 0	2,409	2,409	0	0	2,409
Deferred revenue:						
Succeeding year property tax	80,000	0	80,000	0	134,863	214,863
Total liabilities	80,000	2,409	82,409	0	134,863	217,272
Fund balances:						
Reserved for debt service	0	0	0	0	93,114	93,114
Unreserved	121,162	48,139	169,301	129,524	0	298,825
Total fund balances	121,162	48,139	169,301	129,524	93,114	391,939
Total Liabilities and Fund Balances	\$ 201,162	50,548	251,710	129,524	227,977	609,211

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 80,099	0	80,099	119,222	184,493	383,814
Other	11,321	83,865	95,186	4,386	406	99,978
State sources	50	0	50	76,580	116	76,746
TOTAL REVENUES	91,470	83,865	175,335	200,188	185,015	560,538
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	19,154	0	19,154	0	0	19,154
Other instruction	0	84,572	84,572	0	0	84,572
Support services:						
Administration services	4,042	0	4,042	0	0	4,042
Operation and maintenance of plant services	18,904	0	18,904	0	0	18,904
Student transportation	11,697	0	11,697	0	0	11,697
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	225,000	225,000
Interest and fiscal charges	0	0	0	0	139,748	139,748
TOTAL EXPENDITURES	53,797	84,572	138,369	0	364,748	503,117
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	37,673	(707)	36,966	200,188	(179,733)	57,421
OTHER FINANCING SOURCES(USES):						
Transfer in	0	0	0	0	266,788	266,788
Transfer out	0	0	0	(180,110)	0	(180,110)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	0	(180,110)	266,788	86,678
NET CHANGE IN FUND BALANCES	37,673	(707)	36,966	20,078	87,055	144,099
FUND BALANCE BEGINNING OF YEAR	83,489	48,846	132,335	109,446	6,059	247,840
FUND BALANCE END OF YEAR	\$ 121,162	48,139	169,301	129,524	93,114	391,939

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics:				
General athletics	\$ 411	3,637	5,667	(1,619)
Football	85	7,475	6,265	1,295
Volleyball	647	2,002	2,649	0
Boys Basketball	3,960	3,872	4,808	3,024
Girls Basketball	2,130	3,368	2,406	3,092
Wrestling	2,000	2,021	2,518	1,503
Girls Track	0	156	156	0
Boys Track	930	0	210	720
Golf	99	0	99	0
HS Baseball	151	4,161	4,312	0
JH Baseball	53	39	17	75
HS Softball	1,504	3,054	3,793	765
JH Softball	451	84	170	365
Weight Room	327	0	8	319
Bowling	0	1,528	498	1,030
	12,748	31,397	33,576	10,569
Band/Vocal:				
HS Music	4,365	4,551	3,461	5,455
Uniform Fees	1,788	530	522	1,796
Music Supplies	0	404	404	0
	6,153	5,485	4,387	7,251
Clubs/Organizations:				
Art Club	42	0	0	42
Peer Helpers	74	0	0	74
Football Cheerleaders	1,429	2,141	3,333	237
Basketball Cheerleaders	640	290	40	890
Wrestling Cheerleaders	192	196	60	328
Student Council	122	3,348	2,518	952
National Honor Society	225	33	213	45
Annual Staff	13,964	6,831	7,255	13,540
Drama Club	0	1,086	1,086	0
Explorer's	31	0	0	31
Foreign Language	81	0	0	81
	16,800	13,925	14,505	16,220

LENOX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance End of Year	Revenues	Expendi- tures	Balance End of Year
Class Accounts:				
Class of 2006	1,164	0	0	1,164
Class of 2007	4,261	0	0	4,261
Class of 2008	5,088	9,429	13,945	572
Class of 2009	115	18,766	14,335	4,546
Class of 2010	73	310	10	373
Class of 2011	12	75	22	65
Class of 2012	0	30	0	30
Class of 2013	0	65	0	65
	<u>10,713</u>	<u>28,675</u>	<u>28,312</u>	<u>11,076</u>
Elementary Activities:				
Memory Book	666	1,187	1,348	505
Student Council	547	835	650	732
Activities	119	0	0	119
Music	215	233	0	448
	<u>1,547</u>	<u>2,255</u>	<u>1,998</u>	<u>1,804</u>
Miscellaneous:				
Student Pop	727	341	341	727
Misc school-wide	158	0	0	158
Interest	0	1,453	1,453	0
JH Stand	0	334	0	334
	<u>885</u>	<u>2,128</u>	<u>1,794</u>	<u>1,219</u>
Total	<u>\$ 48,846</u>	<u>83,865</u>	<u>84,572</u>	<u>48,139</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2008

	Balance			Balance
	Beginning			End
	of Year	Additions	Deductions	of Year
Assets				
Cash and pooled investments	\$ 2,120	27,078	27,344	1,854
Liabilities				
Due to other groups	\$ 2,120	27,078	27,344	1,854

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 1,686,714	1,662,237	1,511,553	1,366,507	1,294,775
Tuition	280,851	232,997	266,652	281,335	263,624
Other	195,874	181,662	179,838	174,022	124,466
State sources	1,935,997	1,791,182	1,480,172	1,578,991	1,580,030
Federal sources	186,369	203,138	234,946	349,950	250,371
Total	<u>\$ 4,285,805</u>	<u>4,071,216</u>	<u>3,673,161</u>	<u>3,750,805</u>	<u>3,513,266</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 1,416,919	1,350,985	1,391,226	1,366,276	1,251,328
Special instruction	540,657	512,822	518,138	783,153	661,963
Other instruction	607,099	585,730	563,521	265,014	303,544
Support services:					
Student services	74,729	19,286	15,072	19,190	17,791
Instructional staff services	122,746	91,206	92,947	45,215	39,274
Administration services	397,302	372,026	350,216	318,370	316,205
Operation and maintenance of plant services	309,951	279,666	253,494	267,729	232,156
Transportation services	133,060	157,560	94,760	85,670	81,062
Non-instructional programs:					
Food service operations	0	0	0	81,063	0
Other expenditures:					
Facilities acquisitions	54,388	176,067	277,080	3,358,309	950,189
Long-term debt:					
Principal	225,000	220,000	140,000	100,000	145,715
Interest and fiscal charges	139,748	149,313	154,835	142,670	137,862
AEA flow-through	115,808	112,369	105,645	106,450	109,086
Total	<u>\$ 4,137,407</u>	<u>4,027,030</u>	<u>3,956,934</u>	<u>6,939,109</u>	<u>4,246,175</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Lenox Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lenox Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lenox Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lenox Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lenox Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lenox Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Lenox Community School District's financial statements that is more than inconsequential will not be prevented or detected by Lenox Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Lenox Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lenox Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lenox Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Lenox Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lenox Community School District and other parties to whom Lenox Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lenox Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2009

LENOX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review the duties of office employees and segregate duties where possible. However, it is unlikely that the District will be able to segregate duties without hiring additional staff.

Conclusion - Response accepted.

I-B-08 Capital Assets - The District currently isn't keeping track of capital asset acquisitions and deletions for the Nutrition Fund. Capital assets are required to be maintained for financial statement presentation.

Recommendation - Capital asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of capital assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The Districts accounting software is capable of keeping a complete list of additions, deletions, and current assets for reporting purposes. The District may want to consider sending their accounting staff to training to be able to utilize this aspect of the accounting software.

Response - We will explore training opportunities for accounting staff to better utilize our software for asset reporting. We will also, review current District procedures involving the tracking of capital assets and then modify procedures when appropriate.

Conclusion - Response accepted.

I-C-08 Student Activity Fund - We noted during our audit that the Student Activity Fund had Class of 2006 and a Class of 2007 accounts.

Recommendation - Upon graduation, the remaining balance in old class accounts should be redistributed to other individual activity fund accounts, used as start up funds for the next incoming class or transferred to another student activity fund account.

Response - The Class of 2006 and Class of 2007 accounts will be closed and remaining monies will be redistributed to other accounts in the Student Activity Fund.

Conclusion - Response accepted.

- I-D-08 Board Policies - We noted during our audit the District has not implemented a capital asset policy. The District should implement a policy that addresses the dollar capitalization threshold and years to depreciate assets over. The policy should also address that the District should keep track of assets over \$500 for insurance purposes.

Recommendation - The District should review their board policies in place and update or implement the necessary policies.

Response - We will review our board policies and implement the necessary capital asset policies.

Conclusion - Response accepted.

- I-E-08 Bank Reconciliations - We noted during our audit that the District's current practice is to reconcile the bank statements to a manual spreadsheet instead of the general ledger on the accounting system.

Recommendation - The District should review its procedures to ensure that the bank statements are reconciled to the general ledger of the accounting system on a monthly basis. Better internal controls are achieved when the reconciliation is to the general ledger instead, of a manual spreadsheet, since the general ledger is the official records of the District.

Response - We will review our procedures to ensure that the bank statements are reconciled to the general ledger of our accounting system on a monthly basis for all funds.

Conclusion - Response accepted.

- I-F-08 Agency Fund - During our audit we noted the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the District serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or a parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District places certain assets into the custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund".

The District appears to be improperly accounting for District funds as agency accounts.

Recommendation - Management should review each account identified in the agency fund and determine the most appropriate place to record the transactions. As stated above, the agency fund is created by the District to act as an 'agent' for non District accounts. The District may not arbitrarily choose which funds are placed into an agency account; based on convenience, amount, or sponsor preference. Monies accounted for in the Agency Fund should be the property of an entity that has its own federal identification number and would be considered a legally separate entity. If the accounts that are

currently in the Agency Fund are truly District funds, the transactions should be recorded in the most appropriate fund where standard District policies and procedures should be followed.

For example, it appears that the employees of the district and the elementary building maintain accounts within the Agency Fund. The revenues recorded in these accounts are derived from vending sales from District pop machines. Expenses from these accounts include beverages, supplies and publication subscriptions for employee breakrooms. Clearly the profit from the sales of District's pop machines is the District's profit and should be recorded as revenue in the District's General Fund.

As previously mentioned the District should review each Agency Fund account individually and then make necessary transfers to the funds that are most appropriate. The District should also review Chapter 9 of the LEA Administrative Manual to identify the most appropriate placement for these account transactions. The District should refrain from utilizing the Agency Fund for accounts that are not true agent relationships.

Response - The District will review each Agency Fund account and make necessary transfers to the funds that are the most appropriate. The District will limit Agency Fund accounts to those that are true agent relationships. The pop accounts will be moved to the General Fund.

Conclusion - Response accepted.

LENOX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting

II-A-08 Certified Budget - District disbursements for the year ended June 30, 2008, did not exceed the amount budgeted.

II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-08 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Joyce Sweeney, Secretary Spouse owns Sweeney Repair	Repairs (per bid)	\$14,979
Todd Barker, Board Member Part owner of Barker Implement	Supplies and Services	\$807
Wife	Accompanist	\$785
Paula Horton, Board Secretary Son part owner of Lenox Tire Center	Services (per bid)	\$1,769
Diane Lange, Teacher Son, Corey Lange	Ticket Taker	\$54
Bob Cameron, Coach Owns In the Dark DJ Service	Homecoming Dance	\$157
Mark Curtis, Technical Coordinator Owns Curtis Heating & Cooling	Supplies/Repairs	\$5,104
Tom Christensen, Coach Owns Christensen Sanitation	Garbage Disposal	\$2,538
Sherri Bolinger, Teacher Daughter	Ticket Taker	\$108
Cody Adams, Coach Owns Adams Plumbing	Plumbing	\$1,438

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the board members and employee's spouses and children, do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Bob Cameron, Mike Curtis, Tom Christensen, and Cody Adams, do not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the Code of the Iowa, the above transactions with Todd Baker, does not appear to represent a conflict of interest.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.